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14th Biennial Forum of Government Auditors

The Role of GAO and Other Government Auditors in the 21st Century

BY
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- I am pleased and honored to be here at the 14th Biennial Forum of Government Auditors in Providence, Rhode Island. The 13th Biennial Forum in New Orleans was very successful, and I'm confident that this one will be as well. We're off already to a good start.
- I'd like to commend Rhode Island Auditor General, Ernie Almonte, his staff, the GAO staff, and others involved in the planning and management of this conference. Given the program, it will be hard to beat in the future. Thanks to all involved.
- GAO has a long tradition of friendship and cooperation with the other government auditors. As you know, we continue to be actively involved in the national and regional intergovernmental audit forums. The relationships we have developed through the forums have proven to be beneficial to all parties who take the time to be involved.
- We are also currently working to expand our relationship with our fellow accountability professionals through the forums, the new Domestic Working Group, and other projects (e.g., the joint National State Auditors Association and GAO Information Technology Joint Project).
- I expect that our friendships and partnerships will continue to grow and strengthen as we look toward the future. By sharing our knowledge and experience, we can all do a better job for our respective clients.
- Today, I would like to share with you some information about GAO and other government auditors. First, I will provide a brief overview of GAO and then I will discuss the role of government auditors in the 21st century.

Overview of GAO

- A number of you are current or former GAO employees. In addition, many of the rest of you probably have a pretty good idea about who we are and what we do. However, a few related comments are in order.
- GAO has focused on governmental accountability from the time it began operations on July 1, 1921. While GAO has always worked for "good government," its mission and organization have changed a great deal since 1921 in order to keep up with Congressional and national needs. We've also changed in how we go about doing our work both philosophically and technologically. From a philosophical standpoint, we are employing a "constructive engagement approach" with the entities that we audit and evaluate. In order to help them accelerate progress and put their efforts in context. We are also leveraging technology to improve our consistency, productivity, responsiveness and transparency.

- GAO's current mission is to support the Congress in meeting its constitutional responsibilities and help improve the performance and assure the accountability of the federal government for the benefit of the American people.
- We do this by organizing our work based on our strategic plan. This plan covers a number of important elements, including seven key themes that have no boundaries geographically, politically, or operationally.
- We face a range of challenges in the 21st century that will shape our future – increasing globalization, changing security threats, rapidly evolving science and technologies, the transition to a knowledge-based economy, demographic shifts, quality of life issues, and a range of governance changes and challenges. These themes help us to provide contextual sophistication to all our work and to identify areas of opportunity for additional R&D work.
- All of GAO's work must comply with applicable professional standards and our agency's core values:
 - Accountability (Describes what we do) – Help the Congress oversee federal programs, policies and operations to ensure appropriate accountability to the American people.
 - Integrity (Describes how we do our work) – Ensure that our work is professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced.
 - Reliability (Describes how we want our work to be viewed) – Provide high-quality, timely, accurate, useful, clear, and candid information.
- These core values represent our institutional beliefs and boundaries. They describe the nature of our work and the character of our people. As a result, they are in our heads and hopefully our hearts.
- Our work covers a range of oversight, insight, and foresight activities. By oversight, I mean activities designed to determine that government entities are doing what they are supposed to, that funds are being spent for the intended purpose, and that applicable laws and regulations are being complied with.
- By insight, I mean activities designed to determine what programs and policies work and which ones don't. This also involves sharing various best practices and benchmarking information. It also means looking horizontally across the silos of government and vertically between the levels of government.
- By foresight, I mean identifying key trends and emerging challenges before they reach crisis proportions. The scope of these activities ranges from the challenges of an aging population and the demands of the information age to changing security threats, the complexities of globalization, and our long-range fiscal challenges.
- GAO conducts a wide range of financial and performance audits, program reviews, investigations, legal support, and policy analyses.
- GAO also establishes professional standards, such as government auditing standards, and internal control standards. Additionally, GAO participates in the Federal Accounting Standards Advisory Board (FASAB). We use this board to develop accounting standards and principles for the United States government.

Recent Events

- One issue that has recently been in the press is the largely unexpected bankruptcy of one of the United States' largest corporations, Enron Corporation. A few bad actors who do bad things can have catastrophic consequences for many innocent people. With regard to the Enron situation, it seems pretty clear that a number of players failed to properly discharge their respective responsibilities. These breaches of trust have sent a shock wave through the accountability profession and the investor community.
- While GAO does not have any responsibilities for auditing private sector companies like Enron, we are taking a number of actions designed to help the Congress decide what to do in light of Enron's decline and fall.
- We have made a number of accounting, audit, regulatory, oversight, governance and pension related recommendations for the Congress and executive branch to consider. In particular, we have recommended that a number of steps be taken to enhance the oversight of public accounting firms that audit public companies. In March we testified before the Senate Committee on Banking, Housing, and Urban Affairs on these issues. We testified before the House Financial Services Committee in April, and we recently made a number of related recommendations in response to a request by Senator Sarbanes in his capacity as Chairman of the Senate Banking Committee.
- Our recommendations are designed to help minimize the chance of another Enron-like situation. While certain steps can serve to significantly reduce the related risk, the risk will never be zero.
- Nonetheless, as I will touch on later, we believe that the time has come for reasoned and reasonable action designed to better protect the public's interest.

Auditor Independence

- All government auditors should share three key core values: independence, integrity, and professionalism.
- Independence is key in order for any government auditor to be effective.
- In January we issued a new "Yellow Book" standard on independence. The new standards employ a principles-based approach instead of a rules-based approach. They are designed to protect the public interest and enhance the integrity and credibility of the accountability profession.
- I encourage you to attend Jeff Steinhoff's session on independence today at 4:15 p.m. to hear the details on the new standard. His power point slides have been posted on the GAO webpage.
- Recently, in a letter to Senator Sarbanes, we have recommended that Congress create an oversight board for auditors of public companies that would be housed within the SEC but independently funded and managed. We believe the time has come for definitive action to help restore public confidence that has been shaken by the fall of Enron and other recent events. Evidently, Senator Sarbanes is planning to use GAO's new independence standard framework as a basis for a key element in his related legislative proposal.

- We also believe that the SEC, the exchanges, corporate boards, corporate advisors, CPAs, corporate management, Wall Street analysts and others should take a number of steps to enhance their roles and better protect the public's interest. The time to act is now!

Access to Records Issues

- GAO has access to a broad range of government documents but sometimes we experience problems with obtaining access to records we need to do our job.
- In this regard, GAO has recently filed suit in Federal Court in order to gain access to certain records relating to the development of a comprehensive energy policy proposal by a task force led by Vice President Cheney.
- While I was not pleased with having to take this action, I believe that it was necessary and the right thing to do under the circumstances.
- Clearly, some members of Congress are not happy that I took this action.
- Nonetheless, government auditors must do what they think is right even when it may be both difficult and unpopular. In the end, doing what you think is right is part of what the word "integrity" is all about.
- To make these difficult decisions, government auditors must have an appropriate degree of independence to do their job in a professional, objective and non-political manner.
- The Cheney matter is now in the courts. We believe that we are on the right side of this issue. We expect to prevail, and we know that public opinion is on our side. However, only time will tell what the ultimate outcome will be.

Short and Long-range Fiscal Challenges

- Many state and local governments face serious fiscal challenges due to the slower economy and rising Medicaid costs.
- The federal government faces similar fiscal challenges that are bound to increase in time due to known demographic trends and rising health care costs.
- Recently, I have been very concerned with an apparent loss of fiscal discipline in Washington. Some of the related decisions were based on bad information and/or political considerations.
- As accountability professionals, we must do more to enhance the transparency and accountability in connection with current decision-making, while helping our clients prepare for the

future. This will be very difficult, and we must work together to figure out how best to do it.

Role of Government Auditors in the 21st Century

- What is the proper role for government auditors and how should government do business in the 21st century? One of GAO's goals is to help transform the government's role and the manner in which it does business to meet 21st Century challenges.
- While there is ample room for debate as we answer these critical questions, there is widespread recognition that the status quo is unacceptable for a variety of reasons, including:
 - Rising public expectations for demonstrable results and enhanced responsiveness;
 - Additional resource demands due to recent terrorism events;
 - Significant long-range fiscal challenges due to known demographic trends and rising health care costs; and
 - A range of government performance/accountability and high risk challenges.
- As governments respond to the emerging challenges of this new century, independent public sector accountability organizations, such as, government audit organizations, have important roles to play.
- For many of us, and certainly with GAO, successfully discharging our various responsibilities in a rapidly changing world is requiring that government audit organizations—similar to the government organizations they audit—undergo a cultural transformation.
- For example, in GAO's case, this transformation is driven by the need for government organizations to become less hierarchical, process-oriented, stovepiped, and inwardly focused.
- GAO is leading by example. We have taken steps to transform by becoming flatter, more partnerial, more results-oriented, more integrated, and more externally focused.
- In the year 2000, GAO was restructured to better position the agency for the future and to better align our organization with our strategic plan. We eliminated one layer of management, reduced the number of organizational units from 35 to 14 and closed 5 of 16 field offices. We also reallocated more resources to focus horizontally within GAO and externally.
- We are also working to achieve a better balance between achieving positive and measurable results, meeting client/customer expectations, and addressing legitimate employee needs.
- In addition, we are striving to maximize the value of what we do while managing versus minimizing the related risks.
- Finally, we are partnering more with other governmental organizations, non-governmental organizations, and the private sector, both domestically and internationally, to achieve positive results and desired outcomes. As I mentioned earlier, we have several joint audit projects with other federal, state, and local audit organizations. We are also partnering more with our international colleagues to address issues of mutual interest and concern.
- In the 21st century, government auditors will address emerging challenges through a variety of oversight, insight and foresight activities.
- Specifically, government auditors are well positioned to lead by example in helping to fight corruption, enhance the performance, improve the transparency, and assure the accountability of government for the benefit of our respective citizens. We must lead the charge in the fight to achieve these important objectives.
- As my favorite former U.S. President Theodore Roosevelt, or Teddy Roosevelt, once said: " Aggressive fighting for the right [cause] is the noblest sport the world affords..." and "The credit belongs to the man who is actually in the arena..."

As government auditors, we are clearly in the arena, and we must do our best to prevail in our fight.

- First and foremost, at a fundamental level, we must have zero tolerance for corruption. Corruption has an adverse impact on the economic growth of any nation and on the ability to form and sustain a democratic form of government anywhere in the world.
- While we must have zero tolerance for corruption, it will never be zero. While domestic corruption is not a major issue. We do, however, have some challenges in this area.
- Government policies that emphasize appropriate incentives, adequate transparency, and assured accountability make for strong anticorruption regimes. They also serve to enhance overall government performance and the public's respect for and confidence in their government.

(Slide 1: High Risk)

- One way that GAO has promoted transparency in this area is by publishing a "high risk list" every two years. This risk list was first published in 1990. It includes those government programs and functions that GAO feels are especially vulnerable to fraud, waste, abuse or mismanagement.
- More recently, we've expanded this to also include those programs and functions that are at risk of not effectively achieving their missions or objectives. As you might suspect, many of these programs and functions involve significant amounts of money and multiple players, including external contractors. The latest two additions were the federal government's human capital function and the Postal Service's transformation effort.
- Publication of this list generates light on these areas. With light comes heat, and with heat comes action, and action is what we want.
- How can we make government work better? By improving the economy, efficiency, and effectiveness of government.
- In many ways, this type of work requires government audit organizations to become learning organizations. They must be adept at understanding the purpose and objectives of government programs, the criteria for measuring their success, the research and analytical tools necessary to perform that measurement, and the skills and knowledge needed to fashion constructive solutions and recommendations to make those programs work better.
- For example, this work can show that mission fragmentation and program overlap are widespread and that crosscutting program efforts are not well coordinated.
- In the U.S., for example, there are 12 different federal agencies administering over 35 laws regarding food safety. As a result, our food safety system suffers from inconsistent oversight, poor coordination, and inefficient allocation of resources.
- GAO's work has also shown the need to better manage our defense programs. It is widely believed that our military is second to none in meeting its primary mission to fight and win armed conflicts, but GAO has reported on numerous occasions that our Department of Defense gets poor grades when it comes to economy, efficiency, and related accountability. These problems are especially acute in connection with basic financial management, acquisition practices, and inventory control.
- We all know that it's not just a matter of identifying what the issues are to make government work better, but how we go about addressing these issues.
- The tragic events of last September 11th brought certain new challenges to the U.S. and the world to the forefront.
- Combating international terrorism and ensuring the security of our homeland have put new pressures on our federal budget. While we must do what it takes to win the war against international terrorism and better protect our homeland, it will take time and cost lots of money.

(Slides 2 and 3: Composition of Spending)

- The composition of spending has changed dramatically since 1962 when John F. Kennedy was President. In 1962, 50% of the budget was for defense. In 2002, defense represented only 17% of the budget. Where did the money go? Social Security, health care, and interest on the federal debt. These costs are only going one way in the current environment and that's up! As a result, how can we make the numbers add up and reconcile unlimited wants with available resources?
- Absent substantive reform of entitlement programs, a rapid escalation of federal spending for Social Security, Medicare, and Medicaid beginning in about 10 years will start to overwhelm the rest of the federal budget.
- Consequently, the task of addressing these needs without increasing the impact on the long-range fiscal challenge has become more difficult.
- Simply put, what we may be able to afford today may not be sustainable tomorrow. A fundamental review of existing federal programs and policies is necessary to determine what the government should do and how the government should do business in the future. We also need to examine who should do the work by designing and implementing sourcing strategies that are both effective and fair to all parties.
- Government auditors will need to focus more on results and outcomes rather than on processes and outputs. This includes looking beyond the near- term to longer-term fiscal challenges, including the long-term implications of today's decisions.
- The return on investment for this type of initiative can potentially be much greater than the return from other audit work.
- GAO has done a lot of this type of work. For example, GAO has developed long-range budget simulations (i.e., 50 years), identified long-range fiscal challenges, and noted the need to reform existing entitlement programs in order for the U.S. to avoid rapidly escalating deficits or tax burdens in the not-too-distant future.
- Government auditors will also need to lead the way to revise the process and expand the scope of accountability activities. For example, we must move to continuous auditing in high risk areas, place greater emphasis on testing and reporting on internal controls, and expand our scope to include a range of performance and projection information. Government has a need and opportunity to take the lead in this area. Hopefully, in time, the private sector will follow.
- All government auditors and the governmental institutions that we oversee will need to rely on four key enablers to get our job done—people, process, technology and environment. All four are important, but having the right people with the right skills and knowledge will be the key to success in the 21st century.

- With regard to organizational capacity, government audit organizations must be able to attract and retain the best and the brightest staff and to invest in those staff. After all, governmental audit organizations are professional, knowledge-based organizations and our people are our greatest asset.

Closing Remarks

- In closing, government auditors should lead by example in transforming how government does business and in helping the accountability profession transition through these challenging times and into the future.
- As government auditors, we must take steps to maximize our own performance and accountability while encouraging the government to take the necessary steps to enhance the public's respect for and confidence in their government both now and in the future.
- As auditors general and accountability professionals, we must also be rocks of integrity and model public servants.
- We must say what we mean, mean what we say, and tell it like it is, even if some would prefer not to hear what we have to say.
- We know the challenges that lie ahead and as government auditors, we must confront them head on. In this fight, our weapons are our people, processes, technology and environment and we must use them to successfully discharge our duties to our governments and to our citizens.
- We must learn from the past and from each other while preparing for the future.
- We at GAO will continue to do our part, and we will continue to partner for progress with the Intergovernmental Audit Forums, the National State Auditors Association, the National Association of Local Government Auditors and other related organizations.
- Thank you again for the honor and opportunity to address you today.



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